

DIVISION OF FINANCE
CYBERSECURITY INVESTMENT INCENTIVE TAX
CREDIT PROGRAM

ANNUAL STATUS REPORT
TAX YEAR 2012
TAX-GENERAL ARTICLE

SECTION 10-733

Submitted by:

Maryland Department of Business and Economic Development

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STATUS REPORT CYBERSECURITY INVESTMENT INCENTIVE TAX CREDIT CALENDAR YEAR 2013

PROGRAM OVERVIEW

Maryland's Cybersecurity Investment Incentive Tax Credit program provides income tax credits for Qualified Maryland Cybersecurity Companies (QMCCs). The program was enacted during the 2013 legislative session of the Maryland General Assembly (CB390) to offer incentives for investment in early stage privately-held cybersecurity companies. The program will be funded as of January 1, 2014 and each subsequent fiscal year through December 31, 2018 in the amount of at least \$2,000,000. The program funding for FY 2014 is \$3,000,000.

The value of the credit is equal to 33% of an eligible investment made in a QMCC during the taxable year. The maximum amount of the credit cannot exceed \$250,000 from each qualified investor. The tax credits for investments in a single qualified QMCC cannot exceed 15% of the program's fiscal year funding.

The total amount of Final Tax Credit Certificates issued in each fiscal year cannot exceed the amount appropriated to the reserve fund in the State budget. All applications are reviewed and approved by the Maryland Department of Business and Economic Development (DBED) on a first-come, first-serve basis.

Qualifications

A Qualified Investor is an entity who invests at least \$25,000 in a QMCC and that is required to file an income tax return in any jurisdiction.

A Qualified Maryland Cybersecurity Company is a company that (1) has its headquarters and base of operations in the State of Maryland; (2) has not participated in the tax credit program under this section for more than 1 prior fiscal years; (3) has been in active business no longer than 5 years; (4) has an aggregate capitalization of at least \$100,000; (5) owns or has properly licensed any proprietary technology; (6) has fewer than 50 full-time employees; (7) does not have its securities publicly traded on any exchange; (8) is in good standing; (9) is current in the payment of all tax obligations to the State or any unit or subdivision of the State; and (10) is not in default under the terms of any contract with, indebtedness to, or grant from the State or any unit or subdivision of the State.

Applying for the Credit

At least 30 calendar days but no more than 60 calendar days prior to making a qualifying investment, the investor must complete and mail the Maryland Cybersecurity Investment Incentive Application Forms to DBED. The complete application includes both investor forms (Form A1, A2, or A3) and the Maryland Cybersecurity Company Form (Form B). Only mailed applications are accepted. Electronic or faxed applications cannot be accepted. Complete forms must include all information described in the instructions of each form. Incomplete applications are rejected.

- 1) Beginning December 9, 2013, completed applications with all attachments have been accepted by DBED. A User Name and Reference Number are issued within 48 hours.
- 2) The second step of the application process requires the registration of a User Name and Reference Number beginning at 6:00 am EST on January 13, 2014 through the website <http://cybertaxcredit.choosemaryland.org/>. Submission order of the applications is determined by "first-come, first-served" based ONLY on the electronic submission of the User Name and Reference Number. No physical application is filed for purposes of the ordering of first-come, first-serve.

Certification Process

Applications are reviewed and approved based on the first-come, first-served order. Applications and proof of investment forms are reviewed by a reviewer who is a member of the Cybersecurity Investment Incentive Tax Credit Committee. The application and proof of investment forms are then presented to the Committee for action during meetings held periodically. The Committee is comprised of a panel composed of experts in the area of cybersecurity technology and DBED professional employees with expertise in cybersecurity technology, venture capital funding, business law and taxation.

Upon approval of an application, DBED then issues an Initial Tax Credit Certificate certifying the amount of any approved tax credits to a Qualified Investor or offer rejection. After DBED has issued an Initial Tax Credit Certificate, the investor has 30 days to make an investment in a QMCC. Within 10 days of making an investment in a QMCC, the investor shall provide proof of investment to DBED. If the investor fails to provide notice of investment to DBED within 40 days after the issuance of the Initial Tax Credit Certificate, DBED rescinds the certificate. Based on the actual amount of an investment made by the investor, DBED issues a Final Tax Credit Certificate to the QMCC. If an applicant invests less than what was approved on his/her initial certificate, that unused credit reverts to the program reserve fund for the next investor in line. Initial Tax Credits can be rescinded due to the fact that the prospective Investor decides to invest less than the amount originally applied for or decides not to invest at all. Tax credits go back into the program reserve fund.

Applicants are made aware that all information submitted in or accompanying an application may be subject to the provisions of the Maryland Public Information Act (Md. Code, State Government Article, Title 10, Subtitle 6, Part III) and to the provisions of Md. Code, Tax General Article, § 10-725(h).

CYBERSECURITY INVESTMENT INCENTIVE TAX CREDIT PROGRAM ACTIVITY FOR TY2013

The Maryland Cybersecurity Investment Incentive Tax Credit program began accepting applications on December 9, 2013 and the online registration starts on January 13, 2014. Therefore, there is no activity to report for calendar year 2013. However, since enacted, DBED has begun implementing and marketing the program.